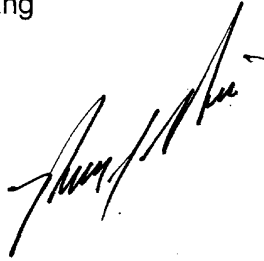


Memorandum

To : Honorable Judy Chu, Ph.D., Chair
Honorable Betty T. Yee, Vice Chairwoman
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date : January 15, 2009

From : Ramon J. Hirsig
Executive Director



Subject : **BOE of the Future**

At the August 2008 Board meeting, you authorized staff to proceed with relocating approximately 500 employees outside of the Headquarters building located at 450 N Street. This action was taken to bring the current staffing levels within the HQ building to an acceptable level. In addition to addressing the immediate space needs for Headquarters, you asked staff to develop a long range vision of our optimum housing needs.

The Executive Team has worked collaboratively in discussing anticipated space needs, ways of doing business in the future, possible consolidation of some functions and centralizing or decentralizing functions as best meets business needs. As a result of that effort the Executive Team has developed the following three options for your consideration:

Option 1: A multi-building, low rise complex located on a campus in the greater Sacramento Area

Option 2: Downtown high rise locations other than 450 N Street

Option 3: Maintain current headquarters in downtown high rise, right sized by moving some units to nearby locations

The attached paper provides a more comprehensive explanation of each of these options, including timelines.

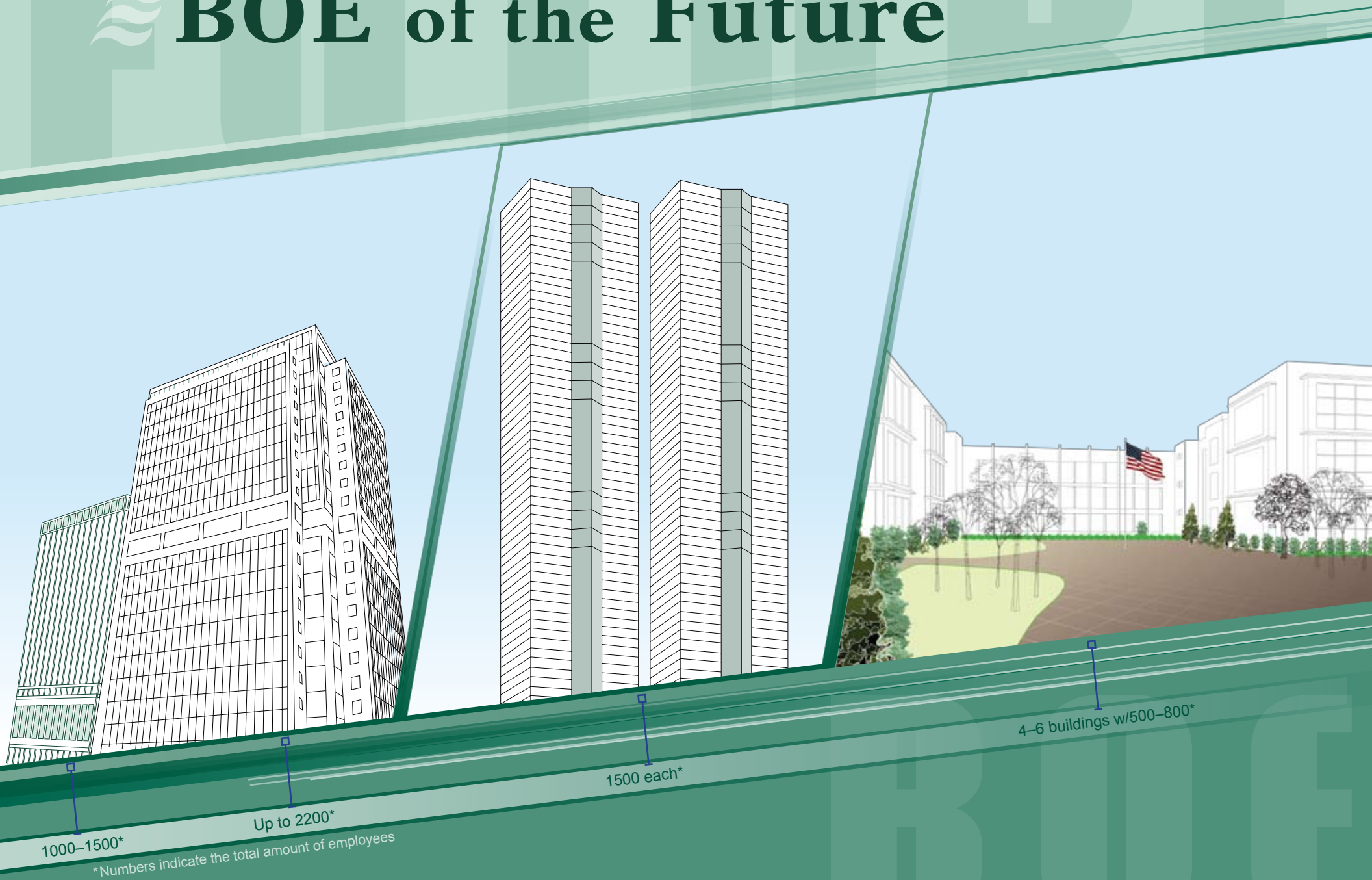
I look forward to the opportunity to discuss the "BOE of the Future" paper with each of you prior to the February 3-4, 2009 Sacramento Board Meeting, when this item will be formally presented. Your office will be contacted by my staff to schedule a meeting.

RJH:fr

Attachments

cc: Mr. Steve Shea
Mr. Alan LoFaso
Ms. Barbara Alby
Mr. Michael Richman
Ms. Marcy Jo Mandel

BOE of the Future



BOE of the Future

Introduction to BOE of the Future

What follows are several possible scenarios for building a BOE of the Future. These were developed through discussions with Executive Team members who took on the responsibility of developing the concepts for a physical BOE of the future. Where we work to meet our mission and efficiently administer California's tax programs is important to all who contribute as well as the taxpayers we serve.

We must address our physical location now, even in these tough fiscal times, because BOE has outgrown our current headquarters space and we anticipate growth in the coming years to help in the collection of revenue.

Attached, at the end of this document, are three items that outline our needs, along with the data that supports the acquisition of more space.

BOE of the Future

The Board recently directed staff to conduct a site search to immediately relocate 520 headquarters employees to an alternative location in an attempt to right size the 450 N Street Building. In addition, staff was directed to look at a long term solution to move all of headquarters to a new campus in the greater Sacramento area.

Creating a vision

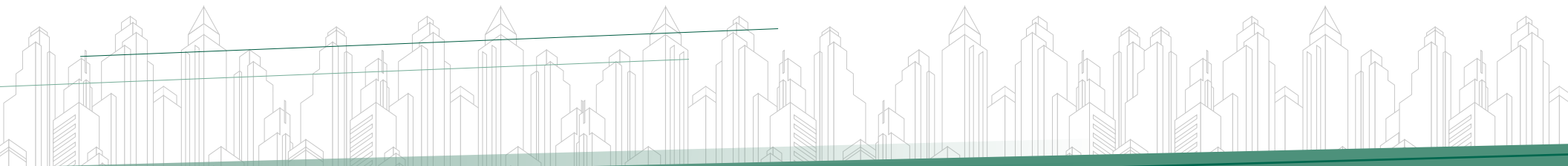
As the Executive team worked together to create a vision for the “Board of Equalization of the Future,” we took the opportunity to not only consider alternatives for physical location and facilities, which is our immediate and primary consideration, but to also consider a number of broader, long range concepts which are elaborated on the “Future Considerations” section of this document. These opportunities are visionary in nature and require a substantial amount of development before they are ready for a more comprehensive discussion. However, the Executive Team believes the concept of “Scalability” should be a key consideration in making any decision about the future housing of BOE HQ staff.

It was determined by the Executive Team that there are three basic scenarios for physical structure to be considered. Any of the scenarios offered below can be adapted to house either a program based organization as we are currently structured, or a restructured, functionally designed organization at some point in the future.

Physical location vision

The three most plausible scenarios for the BOE of the future, as identified by the Executive Team include:

1. A multi-building, low rise complex located on a campus in the greater Sacramento area
2. Downtown high rise locations other than 450 N Street
3. Maintain current headquarters in downtown high rise, right sized by moving some units to nearby locations



BOE of the Future

Scenario 1

A multi-building, low rise complex located on a campus in the greater Sacramento area. Benefits include:

- ⇒ Scalability in order to downsize or grow based on need
- ⇒ Independent function of buildings
- ⇒ New complex could be designed to meet needs of next generation employees (green areas, gyms, coffee bars, wi-fi locations, etc)
- ⇒ Could be located near light rail
- ⇒ New campus could offer adequate parking
- ⇒ Lower cost per square foot when not in immediate downtown location

Timeline

2-3 years if construction process is already underway for a privately owned facility.

8-10 years if a state owned facility is designed and constructed.

(See Appendix 2)

Challenges of a multi-building complex located in the greater Sacramento area include:

- ⇒ Costs
- ⇒ Amount of time it takes to complete a site search, design, fund and build such a campus (6-10 years)



BOE of the Future

Scenario 2

Downtown high rise locations other than 450 N Street. Benefits include:

- ⇒ Relocates BOE from the 450 N Street location
- ⇒ Keeps headquarters employees together in one location
- ⇒ Is close to the Capitol, Legislature, control agencies, and Board Members

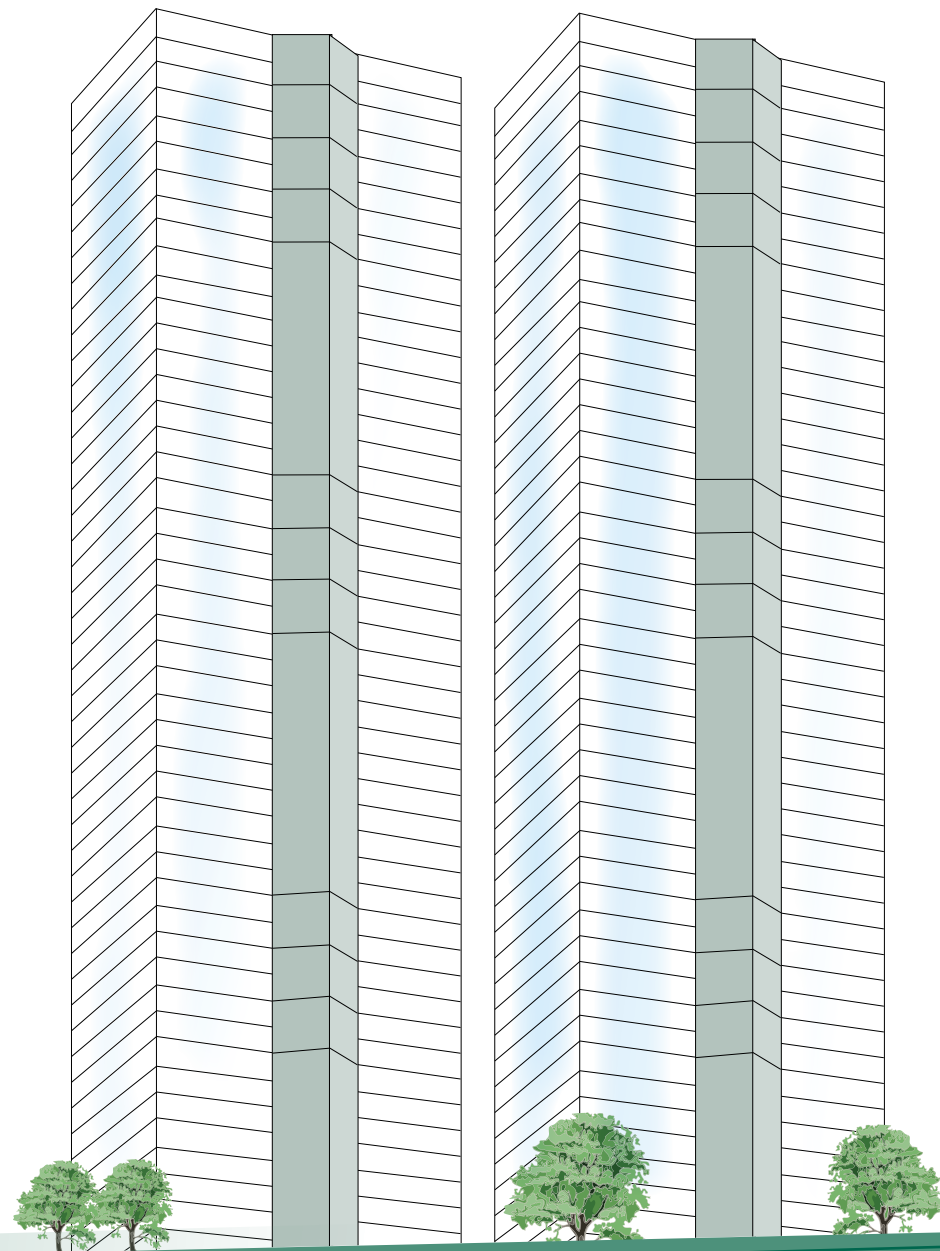
Challenges of moving to a downtown high rise location that is not 450 N Street include:

- ⇒ Moving costs are substantial
- ⇒ No single high rise currently exists that could house all of BOE headquarters staff
- ⇒ Limited scalability

Timeline

2-3 years if construction process is already underway for a privately owned facility.

8-10 years if a state owned facility is designed and constructed.



BOE of the Future

Scenario 3

Maintain Headquarters operations in our current location, right sized by moving some units to nearby locations, benefits include:

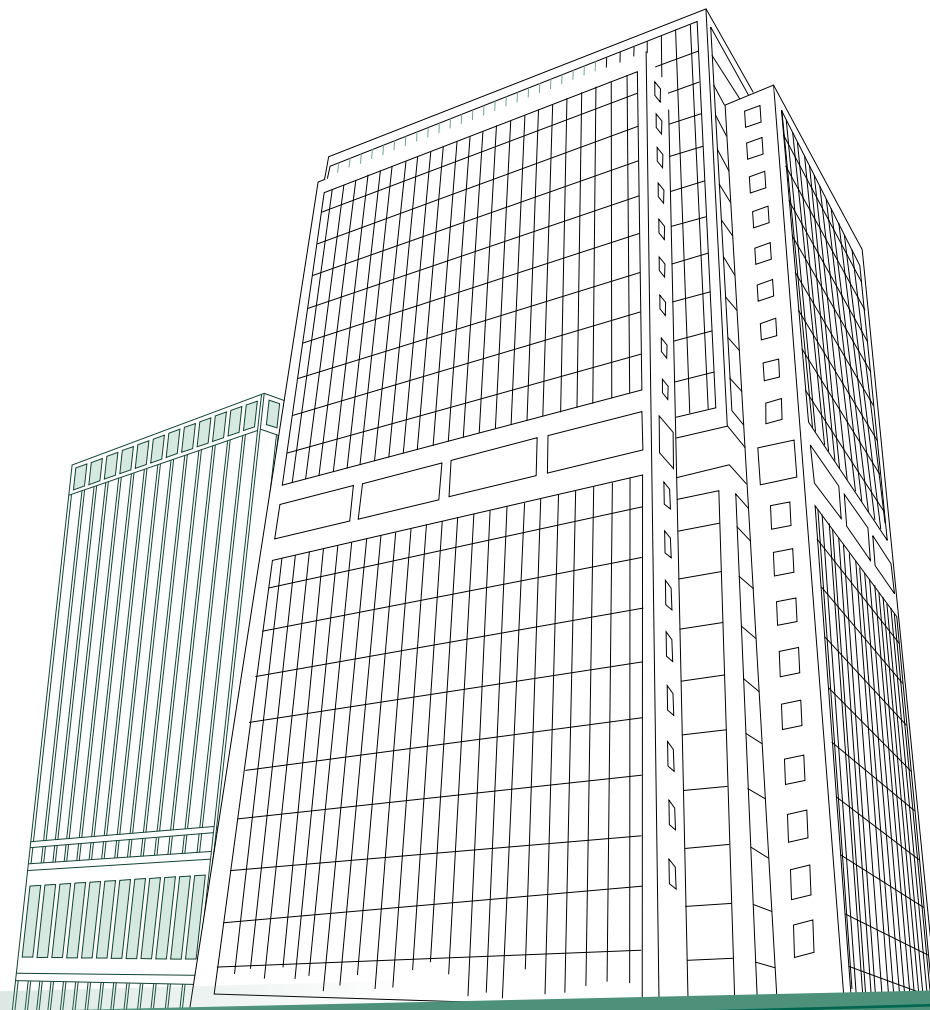
- ⇒ Dislocation of fewer BOE employees
- ⇒ Maintains close proximity of key staff to Board Members and the Capitol and other control agencies

Maintaining Headquarters operations in downtown Sacramento at our current location creates the following challenges:

- ⇒ Scatters employees throughout the greater Sacramento area, which leads to poor communication and inconvenience for meetings
- ⇒ Continues operations in an ongoing construction zone to address ongoing infrastructure issues
- ⇒ Not a “progressive” or visionary plan (No scalability)

Timeline

24-36 months if construction process is currently underway for a privately owned facility.



BOE of the Future

Scenario Options Summary and Next Steps

All of the above listed options offer many benefits and challenges, some of the major ones are noted. Options offer flexibility. Whichever option BOE assumes for its physical location can accommodate our current program based structure or a redesigned functional structure. Whichever of the three options we choose can also include additional Regional Office locations, if that becomes a consideration in the future.

Considerations that must be addressed before a long term campus of the future can move forward include:

- ⇒ Cost/Benefit
- ⇒ Scalability
- ⇒ Keeping HQ staff within physical walking distance of each location
- ⇒ Transportation - If located outside downtown area
- ⇒ Taxpayer Impact

BOE of the Future

Timeline

Based on any recommendation the Board may want to make regarding physical and structural change, timelines will be developed for a cost/benefit analysis, securing funding and drawing up plans.

Many factors in the timeline are out of BOE's control, like DGS site search completion, funding availability, and construction. The Executive Team will continue to work with the appropriate control agencies to develop a specific timeline.

We do know, based on what DGS tells us and previous experience, that the minimum amount of time it takes to move staff from one location to an already constructed, available site is 6 to 18 months. We have also been told by DGS that to complete a site search, design, fund, build and occupy a new campus can take up to 10 years. Staff will continue to work with the control agencies to shorten those timeframes.

Summary

The Executive Team's process of developing the above possible scenarios and organizational structures allowed us to think broadly and consider possibilities that have not been reviewed in the recent past. It is the goal of the Executive Team to successfully implement agreed upon changes, whether merely in physical location or with organizational changes as well. Because our current need is to determine the best option for a physical location, that decision needs to be made immediately. Decisions regarding pursuit of possible future considerations may come later.

BOE of the Future

Future Considerations

The Executive Team, in looking ahead 8–10 years, took into consideration not only the vision presented in our current strategic plan, but took the opportunity to identify a number of longer range opportunities worthy of further development.

These opportunities are visionary in nature and require a substantial amount of development before they are ready for a more comprehensive discussion. That process would logically start with the next update of our strategic plan, which is currently scheduled to begin in 2009.

These concepts are important since they can impact the future space needs of the Board of Equalization in a variety of ways. Accordingly, the executive Team believes the “scalability” of the next BOE campus to account for future growth, consolidations or other changes plays a key role in any decision made. Those possible concepts include:

1. Shift from a program organizational structure to a functional organizational structure
2. Development of regional taxpayer centers

Both of the above are further outlined in the following pages.

Possible considerations yet to be developed include decentralization of some headquarters functions, and consolidation of selected functions with sister agencies.

Each of these concepts will be further developed, based upon the Board’s direction.

BOE of the Future

Organizational Structure: Program or Functional

Another consideration by the Executive Team is to change the organizational structure of BOE. Currently, BOE has a program based organization. An organizational structure established based on function, rather than program could offer many efficiencies and is a structure currently used by the Franchise Tax Board.

Considerations that must be addressed before a change in organizational structure can occur include:

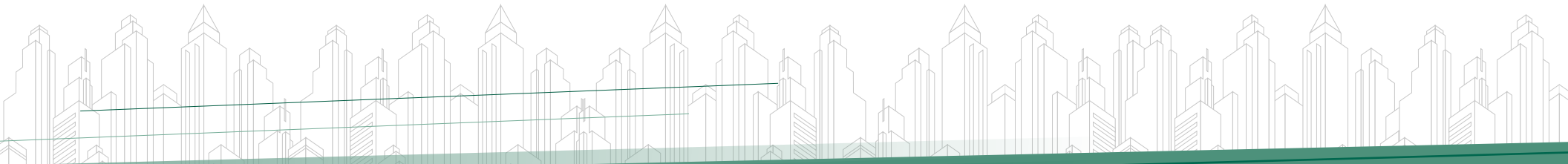
- ⇒ The legal or statutory authority to make such a change
- ⇒ All legal and statutory requirements related to reporting relationships must be met with a proposed change in structure
- ⇒ Lessons learned by other similarly situated agencies that have similar structures regarding benefits and challenges
- ⇒ Cost benefit analysis of the change

A functional approach to the organization of BOE would be quite different from the current program area organization in several ways. For example, the department would be organized by a Collections Department, an Audits Department and a Property Tax Department, rather than by Sales and Use Tax and Property and Special Tax.

A Function-based structure

Possible benefits of a functionally designed organization include:

- ⇒ No Silos. This would be better for policy planning because decisions would be based on function rather than individual program
- ⇒ Managers could more easily be cross trained, which is better for succession planning
- ⇒ Communications would be improved between programs and functions
- ⇒ Offers more flexibility
- ⇒ Inefficiencies could be more easily identified and addressed



BOE of the Future

Regional Offices

One option that offers many benefits to Board Members, taxpayers and employees discussed at length by the Executive Team, with whatever option is chosen for the Sacramento area headquarters facility, is that of Regional Offices.

Some of the benefits that would result from Regional Offices include:

- ⇒ Offers greater statewide presence for BOE
- ⇒ Field Offices could be downsized/consolidated leading to more efficiency and better consistency of policy
- ⇒ Offers opportunity to build a permanent, appropriate Board Hearing Room in Southern California.
- ⇒ Good for recruitment and retention with increased statewide opportunities and expanded talent pool
- ⇒ Offers more opportunities statewide for employee promotions
- ⇒ Offers more opportunities statewide for partnerships regarding facilities and functions
- ⇒ Could alter the number of service counters

Challenges regarding a split between headquarters and regional offices include:

- ⇒ Building costs
- ⇒ It could displace a large number of BOE employees (transition would be a challenge)
- ⇒ Could create perception of inconsistencies in policy implementation
- ⇒ There would be real costs associated with relocating employees

BOE of the Future

Appendices

Appendix 1

State of California

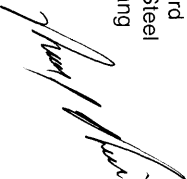
Board of Equalization
Office of Executive Director—MIC: 73
Telephone: (916) 327-4975

Memorandum

To : Honorable Judy Chu, Ph.D., Chair
Honorable Betty T. Yee, Vice Chairwoman
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date : September 3, 2008

From : Ramon J. Hirsig
Executive Director



Subject : **Space Assessment Plan**

At the August 2008 Board meeting, the Board authorized staff to proceed with relocating approximately 500 employees to space outside of the Headquarters building located at 450 N Street. I have worked with the Department Deputy Directors and have identified the following units we propose to move offsite:

<u>Business Unit</u>	<u>New Location</u>	<u>Est. # Staff</u>
Investigations Division	West Sacramento	50
Motor Carrier (IFTA)	West Sacramento	58
Taxpayer Records Unit	West Sacramento	50
Property Tax (County & State Assessed)	Downtown Sacramento*	140
Legal Dept. (including Special Procedures)	Downtown Sacramento*	188
Board Proceedings Division	Downtown Sacramento*	26
Web & Media Services Division	Downtown Sacramento*	8
Total Staff		520

These Units were chosen as appropriate to relocate based on ability to work as independent business units, business function, interaction with other units to be relocated, and the need for direct taxpayer access (IFTA).

The next step will be to ask the Department of General Services (DGS) to locate suitable space to meet our business needs by relocating these employees. We will be asking DGS to identify space within walking distance (2-3 blocks) of the 450 N Street and Wells Fargo buildings for the four units that are shown above with Downtown Sacramento* as their new location. This will be convenient for staff with frequent business in the downtown area to regularly attend meetings with management, staff, taxpayers, Board Members and others. For the three remaining units, it has been determined that West Sacramento is an ideal location, as it is within 5 miles of the downtown area, allows for free parking for taxpayers, as well as offers better options for the IFTA taxpayers who need access to services in person and currently have difficulty parking large trucks in the downtown area.

In addition to addressing the immediate space needs for headquarters, the Board also asked staff to develop a long range vision of our optimum housing needs over the next 8 to 10 years. In the coming months, the Executive Team will be discussing anticipated space needs, ways of doing business in the future, possible consolidation of some functions, and centralizing or decentralizing functions as best meet business needs, among other items. Based on these discussions, a vision for the "BOE Campus of the Future" will result.

BOE of the Future

Appendix 1 (continued)

Honorable Board Members

-2-

September 3, 2008

A timeline and action plan will be developed and forwarded to you when it is available. I will continue to update you as we progress. If you have any questions regarding this information, please contact me directly, or Liz Houser, Deputy Director, Administration Department at 916-445-4272.

RJH:ag

cc: Mr. Steve Shea
Mr. Alan LoFaso
Ms. Barbara Alby
Mr. Ken Maddox
Ms. Marcy Jo Mandel

BOE of the Future

Appendix 2

BOE Campus Selection Process

Timeline

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| I. Identify funding needs, space requirements, and seek approval of DOF and Legislature. | 12-24 months |
| II. Prepare necessary forms (Form 10s) requesting that DGS proceed in locating and securing BOE office Space. DGS will prepare: | 12-18 months* |
| <ul style="list-style-type: none"> • Cost estimates • Advertise BOE site and space requirements • Negotiate lease agreements | |
| DGS Leasing Agreement Requirements: | |
| *12-18 months include | |
| <ul style="list-style-type: none"> • Site selection process • Tenant Improvements (TIs) and office specs • Phased move-in of BOE staff | |

Scenario 1: Build a new low rise complex located on a campus in greater Sacramento Area, for example, similar to FTB

BOE Campus Selection Process State Owned vs. Private Facility

Timeline

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 1A – State Owned and Operated Facility (DGS) | 8 to 10 years |
| Major Capitol Outlay process will require legislation for land acquisition, design, bid award and construction. Construction will comprise latter portion of timeline, 3 to 5 years. Cost estimates \$300 to \$500 million. Costs based upon FTB and East End Complex. | |
| 1B – Privately Owned and Constructed Facility | 24 to 36 months* |
| If construction process is underway (permits, zoning, etc.), the DGS will negotiate Lease term options on privately owned property. 10 year firm lease is preferred. Construction and tenant improvements could extend move in date. | |
| DGS Leasing Agreement Requirements: | |
| *12-18 months include | |
| <ul style="list-style-type: none"> • Site selection process • Tenant Improvements (TIs) and office specs • Phased move-in of BOE staff | |

Scenario 2: Move to a new downtown High Rise complex or complex's to house BOE staff of the future.

BOE Campus Selection Process State Owned vs. Private Facility

Timeline

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 2A – Privately Owned and Constructed Facility | 24 to 36 months* |
| If construction process is underway (permits, zoning, etc.), the DGS will negotiate Lease term options on privately owned property. 10 year firm lease is preferred. Construction and tenant improvements could extend move in date. | |
| DGS Leasing Agreement Requirements: | |
| *12-18 months include | |
| <ul style="list-style-type: none"> • Site selection process • Tenant Improvements (TIs) and office specs • Phased move-in of BOE staff | |
| 2B – 450 N Street — A phased move | 1 to 6 years |
| Phasing the move of BOE staff from HQ will be contingent upon additional information from DGS' ongoing building investigations where additional repair work is required. BCP Process will be required for each BOE group to move. DGS lease agreements will require Form 10s for each group of BOE staff to move. | |

Scenario 3: Stay at 450 N Street and move excess staff to locations within downtown Sacramento. Retain offices at 450 N Street with additional sites selected at a privately owned and constructed facility.

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| 3A – Privately Owned and Constructed Facility | 24 to 36 months* |
| If construction process is underway (permits, zoning, etc.), the DGS will negotiate Lease term options on privately owned property. 10 year firm lease is preferred. Construction and tenant improvements could extend move in date. | |
| DGS Leasing Agreement Requirements: | |
| *12-18 months include | |
| <ul style="list-style-type: none"> • Site selection process • Tenant Improvements (TIs) and office specs • Phased move-in of BOE staff | |
| 3B – 450 N Street Repairs — A phased move | 1 to 6 years |
| Phasing BOE staff from HQ will be contingent upon additional information from DGS' ongoing building investigations where additional repair work is required. BCP Process will be required for each BOE group to move. DGS lease agreements will require Form 10s for each group of BOE staff to move. | |

Appendix 3

Space Needs

Based on vacancies, absences, and flexible work schedules, the number of employees in the building at any given point is about 2300. Based on recent budget augmentation, the number of BOE headquarters employees is expected to increase to approximately 2650 by June 2011.

Looking further to the future, BOE projects by the year 2014, the number of positions assigned to headquarters operations will increase to approximately 2800-3000 positions. BOE must explore long-term options to meet the space demand of approximately 600,000 usable square feet; the 450 N Street building is approximately 460,000 usable square feet.

The following chart provides the high-level detail regarding building occupancy and space needs.

Estimated Space Needs through 6/30/2011

Headquarters Occupancy estimates as of 6/27/2007*	≈2,500
New Headquarters Positions from the 2007/2008 Budget	21
New Headquarters Positions from 2008/2009 Budget (if adopted)	125
TOTAL estimated Headquarters Occupancy as of 6/30/2011	≈2,650
Recommended Headquarters Occupancy**	1,900-2,200
Estimate number of Headquarters employees to relocate	≈450-750
Estimated usable square footage needed (210 square foot per person)	95,000-158,000
Estimated cost to relocate 450 employees (includes rent at \$3.63 and tenant improvement services)	\$5.0 M
Estimated cost to relocate 750 employees (includes rent at \$3.63 and tenant improvement services)	\$8.3 M

Estimated Space Needs through 6/30/2014

Estimated Headquarters Positions in 6/27/2011	≈2,650
Estimated Growth 6/30/2009 through 6/30/2014 (Based on 5 and 10 year average growth)	≈175-350
Estimated population as of 6/30/2014	≈2,800-3,000
Estimated usable square footage needed 6/30/2014 (Based on 210 usable square foot per person)	589,000-630,000
Current usable square footage at Headquarters building	≈460,000
Estimate shortage of usable square footage	129,000-170,000

* Represents the number of positions assigned to the HQ building

** Source—1997 Space Optimization Study conducted by Dreyfuss and Blackford Architects

 BOE of the Future

FOOTPRINT BOE



ELITE

BOE